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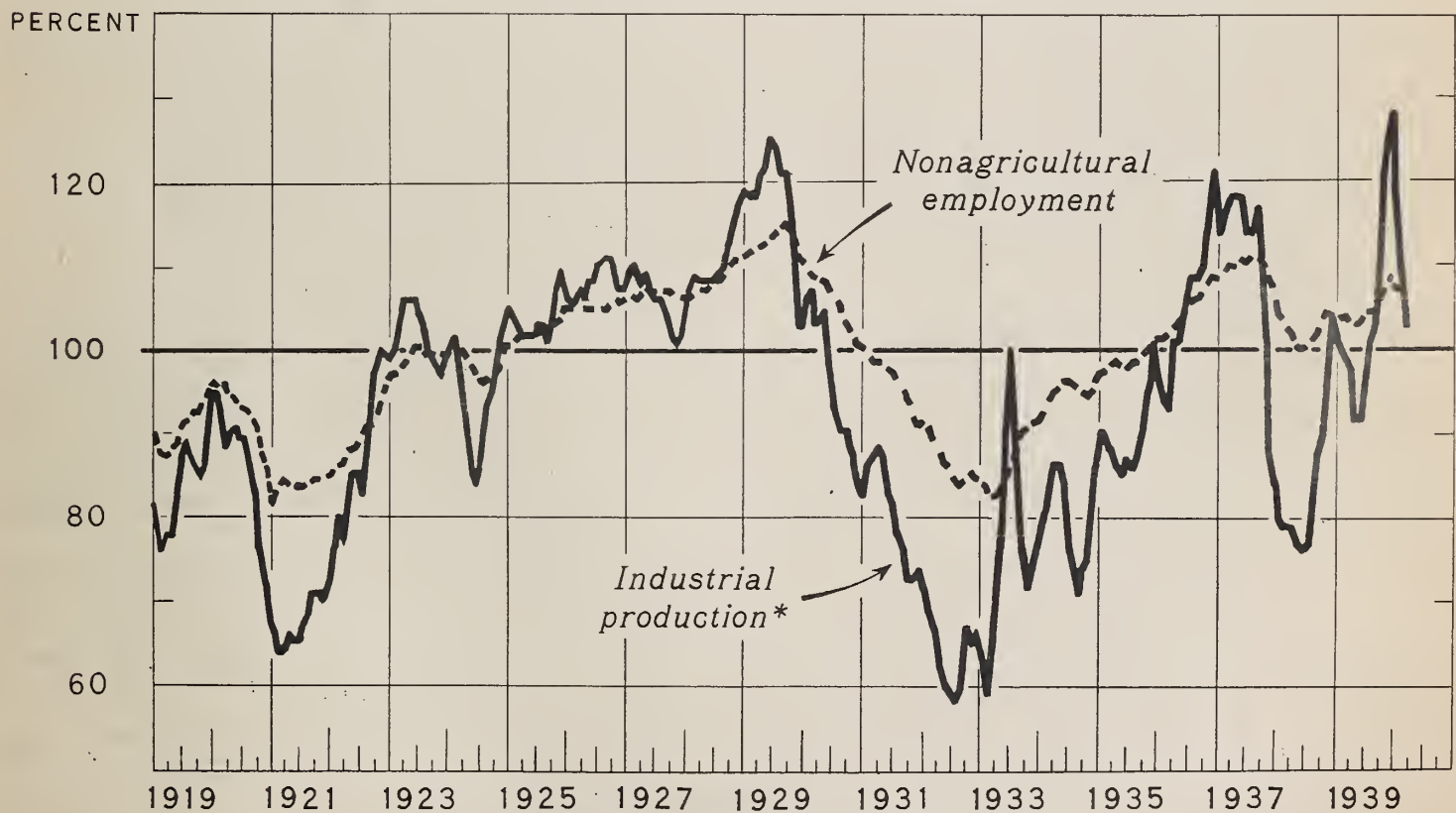
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BAE

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INDUSTRIAL PRODUCTION AND NONAGRICULTURAL EMPLOYMENT, UNITED STATES, 1919-40

INDEX NUMBERS (1923-25=100) ADJUSTED FOR SEASONAL VARIATION



*BOARD OF GOVERNORS OF FEDERAL RESERVE SYSTEM

U. S. DEPARTMENT OF AGRICULTURE

NEG. 38299 BUREAU OF AGRICULTURAL ECONOMICS

THE SHARP DECLINE IN INDUSTRIAL PRODUCTION DURING THE FIRST QUARTER OF 1940, AS MEASURED BY THE FEDERAL RESERVE INDEX, DID NOT RESULT IN ANY SUBSTANTIAL DECREASE IN TOTAL NONAGRICULTURAL EMPLOYMENT, ACCORDING TO A SEASONAL ADJUSTMENT OF BUREAU OF LABOR STATISTICS DATA. EMPLOYMENT IN SOME INDUSTRIES NOT INCLUDED AMONG THOSE ENTERING DIRECTLY INTO THE FEDERAL RESERVE SAMPLE DID NOT DECLINE; AND JOBS IN TRADE, SERVICE, AND TRANSPORTATION ARE LITTLE AFFECTED BY TEMPORARY FLUCTUATIONS IN INDUSTRIAL PRODUCTION.

SUMMARY

The downward trend in economic conditions affecting the domestic consumer demand for farm products apparently ended in April. Industrial activity turned upward in the first part of May, and the decline in consumer purchasing power appeared to be about over. Prior to invasion of the Low Countries by Germany the business and demand outlook definitely pointed to gradual improvement over the next few months. Since then the smashing German drive, which may settle the war one way or another within a shorter period of time than most people had expected, has added an element of uncertainty. Early termination of the war, or mounting indications that it may end within a year or less, would necessitate complete reappraisal of the outlook. This is especially true if Germany should be victor.

The actual cessation of hostilities would affect the industrial situation in many fundamental ways; anticipation of this by businessmen might so affect confidence, buying and inventory policies as to alter the trend of business activity during the next few months, even if these fears finally prove to be unwarranted. However, since the final outcome of the new German drive may not be known for quite some time; and since the new vigor of the war will, in the interim, tend toward intensified Allied buying of industrial products from the United States, appraisal of the probable future trend of business conditions over the next few months remains essentially unchanged. If the war turns into a more vigorously conducted see-saw conflict on a new front, the effects on United States business conditions during the remainder of 1940 might be definitely stimulating.

The European War has had an increasingly adverse effect upon exports of United States farm products. Except cotton, which is still being

exported as a result of orders placed in past months, exports of nearly all important commodities to the belligerents have practically ceased. Exports to European neutral nations also are being drastically curtailed. The spread of hostilities in Europe may have more favorable longer-time effects on export demand, but there is little prospect of any immediate and substantial pickup.

Income from sale of farm products increased some from March to April and remained higher than for the corresponding month of 1939. Government payments which were lower in April than in March and below April of last year, are expected to continue smaller than those a year earlier for several months. In view of the higher level of consumer income compared with a year earlier, income from sales of farm products should continue to be higher in the next few months than during the corresponding months of 1939.

A summary of the situation by commodities:

- Cotton: With the recent spread of the war, domestic cotton prices declined about 1 cent in the first half of May, but were still 1/2 cent above a year ago. Domestic mill activity declined seasonally in April. Further declines are expected unless manufacturers' sales increase. The outlook for consumption in Europe is now less favorable, particularly in Belgium and Holland, where approximately 600,000 bales of cotton are consumed annually.
- Wheat: Domestic wheat prices have declined since the week of April 22. Some decline took place prior to May 13 influenced by improved domestic crop conditions and heavy marketings, and thereafter prices declined sharply following the turn of events in Europe.
- Feed grains: Corn prices advanced about 8 cents per bushel following German occupation of Norway but recent declines have carried prices back to about what they were in early April; prices of other feed grains have also declined recently. Weather during April was favorable for the improvement of pastures and hay crops. About 25 million bushels of corn have been sold for export under the corn export subsidy program recently announced by the Federal Surplus Commodities Corporation.

- Oilseeds and fats and oils: Factory production of fats and oils in the first quarter of 1940 was 17 percent greater than a year earlier, and net imports were sharply reduced. Prices of domestic oilseeds and of most fats and oils were higher in April this year than last, reflecting a generally stronger demand situation. Prices of lard, greases, beef fats, and coconut oil, however, were somewhat lower, chiefly because of increased supplies of lard and greases in this country and of copra in the Philippines.
- Hogs: Slaughter supplies of hogs during the last 5 months (May-September) of the current hog-marketing year will continue much larger than a year earlier. The increase over a year earlier may be slightly less percentagewise, however, than it was during the past 7 months. Marketings were reduced fairly sharply in the last half of April, and this decrease was accompanied by a substantial rise in prices. Hog prices weakened slightly in early May as marketings again increased.
- Lambs: Weather and feed conditions during April were quite favorable for the development of the early lamb crop. Marketings of early lambs were smaller than a year earlier during April, but supplies of early lambs in May and June probably will be larger this year than last. Prices of both old and new crop lambs in early May were little different from a year earlier.
- Cattle: Inspected slaughter of cattle in the first 4 months of 1940 totaled about 5 percent larger than in the corresponding period of 1939, but total slaughter supplies of cattle in 1940 are not expected to be greatly different from those of 1939. Prices of all grades of slaughter cattle advanced during April but weakened slightly in early May. Prices of feeder steers have risen fairly sharply since late winter and are now a little higher than they were a year earlier.
- Wool: Domestic prices of most wools declined moderately in the early part of April but later in the month advances were reported on a few lines. United States mill consumption of apparel wool in March was 35 percent below the peak of October 1939 but was slightly larger than average March consumption for the 10 years 1929-38. Domestic stocks (carry-over) of apparel wool, on a grease basis, at the end of March were the smallest in 6 years of record. It appears likely that the carry-over of good quality wools into the 1940-41 season will be small in South America and the Union of South Africa.
- Butter: Changes in consumption and retail prices indicate that consumer expenditures for butter in March were about 16 percent larger than in the same month in 1939. It is expected that consumer expenditures for butter during the coming summer will continue decidedly higher than in the summer of 1939. In April there

was a small seasonal decline in butter prices. Most of the seasonal decline usually occurs before mid-May; this year some recovery in prices appeared early in May.

Poultry: Egg and chicken prices during the remainder of 1940 are expected to increase relative to a year earlier because of the expected increase in consumers' incomes and the expected smaller supplies of chickens and eggs.

Fruits and vegetables: Early prospects indicate that fruit supplies during the 1940-41 season probably will be smaller than a year earlier, which together with improved consumer demand in domestic markets may offset to a large extent the possible loss of exports occasioned by war conditions in Europe. Market prices of new potatoes declined sharply during recent weeks as shipments from California and Florida increased. Market supplies of truck crops continue smaller than a year earlier, and prices of some individual items advanced contra-seasonally during recent weeks.

DOMESTIC DEMAND

Prior to invasion of the Low Countries by Germany the business and demand outlook definitely pointed to gradual improvement over the next few months. Since then the smashing German drive, which may settle the war one way or another within a shorter period of time than most people had expected, has added an element of uncertainty. Early termination of the war, or mounting indications that it may end within a year or less, would necessitate complete reappraisal of the outlook. This is especially true if Germany should be victor. The actual cessation of hostilities would affect the industrial situation in many fundamental ways; anticipation of this by businessmen might so affect confidence, buying, and inventory policies as to alter the trend of business activity during the next few months, even if these fears finally prove to be unwarranted. However, since the final outcome of the new German drive may not be known for quite some time, and since the new vigor of the war will, in the interim, tend toward intensified Allied buying of industrial products from the United States, appraisal of the probable future trend of business conditions over the next few months remains essentially unchanged. If the war turns into a more vigorously conducted see-saw conflict on a new front, the effects on United States business conditions during the remainder of 1940 might be definitely stimulating.

Industrial production, after experiencing only minor fluctuations since the end of March, turned slightly upward in the first half of May. The decline in consumer income, which was only moderately affected by the sharp contraction in productive activity during the first quarter of 1940, probably is about over. Conditions in the leading industries still indicate, however, that although the business recession is ended there will be no immediate sharp rise sufficient to stimulate consumer demand in any marked degree. Ample inventories of industrial goods in the hands of processors and distributors probably will prevent a rapid recovery.

The decline in industrial production from 128 percent of the 1923-25 average in December 1939 to around 101 in April was sufficient to have resulted in a dangerous impairment of business confidence if other conditions had been conducive. It appears, however, that businessmen generally were much more aware than usual of the necessity for a period of readjustment, and hence were not stampeded into a panicky liquidation movement when the decline got under way. The relatively low level of commodity prices at the beginning of the decline also contributed to the absence of hasty liquidation, as did the fact that the European War was in progress. Additions to inventories late in 1939 were made, in large measure, as insurance against war uncertainties. These war uncertainties continue to be an important factor in the situation.

Although inventories in the hands of processors and distributors are probably at least as high now as in August 1937, just before the 1937-38 depression started, there is no evidence that businessmen in general will seek to carry smaller stocks of goods. The possibility that heavy inventory liquidation might occur during the recent recession in business was the most dangerous element which might have contributed to a prolongation and intensification of the decline. Indications that the war in Europe and other factors would prevent any such panicky liquidation, however, apparently have thus far proved to be correct.

Recoveries from past recessions similar in general character to that in the first quarter of 1940 frequently have been based on inventory replacement made necessary by the fact that production was allowed to fall considerably below current consumption levels. At this time, the fact that inventories still are ample, even with war uncertainties taken into consideration, points to no additional increase in inventories. Any recovery which we will have during the next few months, therefore, will have to come from three possible sources: (1) an increase in the exports of industrial products, (2) increased movement of goods into consumer channels, (3) increases in production in those industries in which output has been allowed to fall below current consumption. Conditions pointing to an increase in exports of industrial products in 1940 over 1939 have been discussed in previous issues of this report. Thus far, these exports have increased about in line with expectations and probably will continue well above last year.

Most lines of consumers' goods manufacturing and distribution have been operating at relatively high rates for some time. It is expected that the net contribution of the Federal Government to national buying power will increase after June as a result of increases in farm benefit payments and W.P.A. and defense expenditures. By the end of the year this net contribution is expected to be nearly twice as great as it is at present. This will help to support a comparatively heavy movement of goods into consuming channels, but no substantial increase is expected in the near future. Additional final consumption of industrial goods, therefore, would have to come largely, either from increased capital expenditures or a rise in building construction. The former probably will be slow in developing, and is not likely to initiate any rise in business activity from present levels. Residential building activity is picking up well,

following the sharp slump which from last October to January carried the Federal Reserve index of residential building down by more than 22 percent to the lowest point since August 1938. Residential contracts awarded are again on the uptrend and during April were substantially above the corresponding period of 1939, as compared with some reduction during the first quarter. Applications for F.H.A. guaranteed loans were 40 percent higher in April than a year earlier, suggesting further extension of the improvement. The outlook for other types of construction is not so favorable.

A large part of the decline of industrial activity from December through April is attributable to the drop in steel output as backlogs accumulated last fall were reduced. Although exact figures are not available, it is estimated that steel production fell below current consumption. Unless consumption is reduced more than is now indicated by the general business situation, steel production will show some improvement during the next few months. Steel mill operations already seem to have passed the bottom, with ingot output advancing from 60 to 70 percent of capacity in recent weeks. This recovery is even more pronounced if allowance is made for the usual seasonal downturn at this time of year. There has been some expansion in new orders for steel since mid-March, with the demand for steel for miscellaneous uses and exports continuing strong. Unless production for the 1941 automobile models is unduly delayed, it appears that the possible increase in steel output alone would result in a moderate increase in the Federal Reserve index of industrial production this summer.

Although there is little probability that increases in production and consumer income will be as large in the recovery period now starting as in 1939 when industrial products were being produced for inventory as well as for satisfying a growing domestic and export demand, there have been numerous signs that the expected period of readjustment has about run its course and that some lift in industrial production and in other factors which affect the domestic consumer demand for farm products is in prospect. Uncertainties added by recent war developments do not as yet alter essentially this appraisal of the outlook.

EXPORT DEMAND

Recent developments in the European War have not changed greatly the export demand outlook for the next few months, at least, but carry implications of eventual changes of greater importance.

During the first 7 months of the war exports of some farm products, notably fruit, tobacco, and wheat, were greatly curtailed. Exports of some commodities, particularly cotton, hog products, soybeans, dried beans, and canned vegetables were much higher than a year earlier. As noted in previous issues of this report, these changes in exports were only partly attributable to the outbreak of the European War. As time passed, however, and the belligerent nations were able to put into effect more complete war-time controls, the real effects of the war upon exports of our farm products became increasingly evident. These effects were almost altogether adverse.

At the present time, the belligerents have practically ceased taking United States pork products, wheat, tobacco, fruits, and many canned vegetables. Although cotton exports are continuing at a comparatively rapid rate, these shipments represent cotton previously purchased, and no sales to these countries are being made at present. Moreover, Great Britain has put into effect drastic restrictions on home consumption of cotton products, and has further limited the shipping space allocated to cotton from this country. In other words, so far as our major agricultural commodities are concerned, the belligerents have almost ceased to offer a market.

The United States also has been largely shut off from neutral markets in Europe, a condition which would be intensified by possible extension of the war to Southeastern Europe. All of this means that a large part of the United States export market for farm products has been at least temporarily cut off. To make matters worse, the fall of sterling and other currencies in relation to the dollar, as well as other economic and political considerations, have improved the competitive position of other surplus agricultural producing areas relative to that of the United States.

Additional unfavorable indications as to the longer-time effects of war on exports of United States farm products are to be found in the increase of cultivated land in Great Britain, a program looking to the increase of tobacco production in French Morocco, discussions looking to increased soybean production in Canada as a war measure, and British steps designed to place greater reliance on countries other than the United States for cotton imports.

On the other hand, there are some recent developments which seem to favor future increases in exports of United States farm products. The spread of the European conflict tends to create new demands on the British navy which may make transportation from distant markets more difficult and expensive, thus giving a relative advantage to the short ocean route from North America. If these tendencies continue, the Allies may find it necessary to divert a larger proportion of their purchases of farm products to the United States and Canada. Moreover, intensification of the war will cause an increased drain on Allied financial resources, thus bringing up the possibility of future extension of credits to the belligerents and the attendant implications with respect to purchases of agricultural commodities in this country.

The spread of hostilities to Scandinavia and other European neutral countries has cut off some British sources of supplies, particularly of pork, evaporated milk, and eggs. This may later result in increased export demand for these commodities in the United States. It is evident, however, that no immediate and substantial increase in export demand is likely to result. Great Britain can offset the loss of pork supplies formerly received from European countries by increases in imports from Canada, increased substitution of South American beef for pork, decreased domestic consumption by means of rationing, and increased home slaughter of existing animals. Butter and cheese, being concentrated products, probably will continue to be imported by Great Britain from distant Empire sources, and even if the United States should obtain all of the trade in evaporated milk formerly going to European neutrals this would repre-

sent only a very small proportion of the total disappearance of dairy products produced in the United States. Much the same can be said of eggs. And even if the belligerents should find it inexpedient to obtain wheat from distant markets such as Australia, Canada is in a position to supply practically their entire requirements for some time to come. It appears, therefore, that the spread of the conflict in Europe will result in no large immediate gains in export demand for United States farm products, although the longer-time effects might be more favorable.

Despite all of these unfavorable effects of the war upon exports of United States agricultural commodities, the general level of prices received by farmers probably has been higher than it would have been if the European War had not occurred. The speculative markets have reflected the possibility of later war-time price inflation, and until the invasion of Holland and Belgium these war influences were a factor of strength in these markets. The general level of prices of farm products rose following the outbreak of war, and has since been maintained fairly well. This can be attributed only in part to domestic conditions. Moreover, the war has been an important factor of strength in the domestic industrial situation, contributing to industrial activity and consumer incomes and helping to support the domestic demand for farm products.

WHOLESALE COMMODITY PRICES

Commodity price movements were confined to a narrow range, for the month, following the rise which accompanied the spread of war to Scandinavia, but with some exceptions prices strengthened again following invasion of the Low Countries on May 10. On May 14, the Bureau of Labor Statistics index of 28 basic commodities was about 4 percent above the extreme low reached in April, and 16.5 percent above what it was just before the war in Europe began. This index is down only 7 percent from December, whereas the Federal Reserve index of industrial production, which has declined about three times as much, is back to about what it was before the war started.

Despite the depressing effects on commodity prices of declining industrial activity and the cautious buying policies of the first quarter of 1940, no general weakness in wholesale prices developed. Now that the danger of inventory liquidation has been lessened by the improvement in business there appears little probability of any further substantial decline in industrial commodity prices as a result of domestic influences; and barring more unfavorable developments in Europe, as recovery proceeds in this country prices in general may be expected to advance somewhat.

Recent developments in the war in Europe have been temporarily unfavorable to prices of some commodities, apparently because of the possibility that they may lead to early termination of the war. If the conflict should soon become less one-sided, however, a sizable reaction might ensue. Prices of many industrial raw materials and semi-manufactures in urgent demand by the Allies would benefit from more active war demand. Increased exports of industrial goods will strengthen domestic demand for farm products, and the general tendency toward advancing prices in wartime has been present even in farm

commodity markets in this country until the invasion of Holland and Belgium. Any increase in consumer buying power accompanying the prospective gradual business improvement will be a factor of strength in prices of meats, fruits and butter, which appear to have been affected unfavorably to some extent by the decline in consumer income in 1940.

Commodity price movements in general have not been sufficient thus far in 1940 to have much visible effect on industrial activity, though failure of pronounced price weakness to appear during the period of sharp contraction in industrial production was no doubt a decisive factor in preventing inventory liquidation. Such liquidation probably would have started a "vicious downward spiral" and thereby have delayed the upturn in industrial production. Price movements during the remainder of 1940 probably will have a tendency to aid rather than to retard recovery, if an early end of the European War is not foreshadowed by military developments.

FARM INCOME

Cash income from farm marketings increased slightly from March to April instead of making the usual seasonal decline, and was somewhat higher than in April 1939. The increased income resulted largely from larger marketings and slightly higher prices of meat animals. Income from crops also increased slightly from March to April. Government payments to farmers in April were smaller than in March and considerably smaller than a year ago, when they amounted to \$90,000,000.

Grain prices have been extremely weak recently but farm marketings of these products are not large in May and total income from farm marketings is expected to make about the usual seasonal increase from April. Marketings of truck crops and strawberries are important sources of cash income in May, and are expected to increase more than seasonally from the unusually low levels of the past few months. Marketings of livestock and livestock products are also expected to continue somewhat larger than a year ago, and income from these sources will probably total higher than a year earlier. Government payments are expected to continue relatively low in May, as most of the soil conservation and price parity payments on the 1939 program have been completed and payments on the 1940 program are not likely to begin in volume until the last half of the year.

PRICES RECEIVED AND PAID BY FARMERS

The index of prices received by farmers in May apparently was lower than in April, and the index of prices paid was the same as in April, according to preliminary indications based on price changes in wholesale markets. Farm product prices were erratic following the spread of war to the Low Countries. At first gains predominated, though cotton prices declined. Later extreme weakness developed in grain markets, more than cancelling the initial rise. The May declines in dairy product and vegetable prices were due largely to seasonal factors, as was the strength in fruit and, to a lesser degree, in poultry products. The composite index of meat animal prices probably changed little between mid-April and May, whereas cotton and grain prices were lower.

The general level of farm prices in April was 98 percent of the 1910-14 average, the same as in September 1939, when the index advanced 10 points in large measure in response to the outbreak of war in Europe. The April index was 9 points higher than a year earlier, whereas the index of prices paid rose only 3 points between April 1939 and April 1940.

As a result of the larger rise between April 1939 and April 1940 in prices received than in prices paid, the ratio of the former to the latter advanced from 74 to 80 percent of the 1910-14 average. At 80 the ratio was the same in April as in the preceding month and also was the same as in September 1939, when a rise of 6 points occurred.

COTTON

From April 3 to May 4 the daily average price of Middling 7/8-inch cotton in the 10 markets varied between 10.39 and 10.55 cents. Following the spread of the war to Belgium and Holland, the price in these markets declined to 9.92 cents on May 10, the lowest since early December. After a slight recovery on May 11 and 13, the average dropped to 9.60 cents on May 14. The drop on the latter date was accompanied by a sharp decline in the prices of a number of other commodities and of securities, growing out of the uncertainties in Europe. During the second week of May last year the price in these markets averaged 9.07 cents.

Domestic manufacturers' sales of unfinished cotton goods appear to have been materially below production during the past month. Except for a brief period in early April, this has characterized the situation for the most part since early December. Despite the sharp decline in mill activity since December, the position of manufacturers is such that a more-than-seasonal decline in activity is believed likely to occur during the next 2 or 3 months unless sales improve.

There was some seasonal decline in the daily rate of mill consumption in April, but the 624,000 bales consumed for the month exceeded consumption in April last year by 15 percent. The 9-month (August to April) total of 5,955,000 bales exceeded that of the corresponding period last season and the season before by 16 and 34 percent, respectively. It was second only to the record consumption of the like period in 1936-37.

The recent spread of the war, along with the increased air raids, has reduced the outlook for cotton consumption in Europe. In Belgium and Holland combined, where mill operations have been severely disrupted by military activities, mill consumption of all cotton totaled close to 600,000 bales in each of the past four seasons. In Great Britain a rationing scheme was recently announced restricting the sale of cotton textiles for domestic consumption to about 75 percent of the pre-war level. This was designed to facilitate the filling of military orders and to insure an adequate supply of goods for export. While the British home trade is estimated to account for about two-thirds of the output of British mills, the scheme may not reduce mill consumption within the near future but may do

so over a longer period. Cotton mill activity in Europe, outside the German area, in Canada and in parts of China is believed to have continued at a high rate through April. In Japan and India, further reductions in cotton consumption have occurred within recent weeks.

Exports of American cotton from August 1 through May 13 totaled 5,706,000 bales compared with 3,035,000 bales to the corresponding date last season. Exports to Great Britain up to May 9 were about 4-1/4 times as large as in the corresponding period last year and exports to France and Italy about twice as large. These and other material increases have much more than offset the sharp decline in exports to central Europe.

The Weather Bureau reports have indicated that the weather in much of the Cotton Belt has been mostly unfavorable to cotton during the 4 weeks ended May 7. Early trade reports indicate that cotton acreage will be increased somewhat in a number of foreign countries and possibly in the United States in 1940.

WHEAT

Domestic wheat prices declined during the past 4 weeks. For the week ended April 22 the July futures closing prices at Chicago averaged 1.09 cents, which was the highest since the fall of 1937. Then prices declined to an average of 1.06 cents for the week ended May 11, influenced largely by improved domestic crop conditions and heavy market receipts. On May 14 and 15, liquidation became heavy following the turn of events in Europe and prices declined the 10-cent limit on both days.

The domestic wheat supply in 1940-41 is expected to total approximately 949 million bushels according to present indications. This includes an estimated 1940 crop of 675 million bushels and the July 1, 1940 carry-over of 274 million bushels, which does not include crop insurance reserves estimated at 15 million bushels. On the basis of supplies of 949 million bushels, prospects that domestic disappearance in 1940-41 may total about 665 million bushels and shipments to our possessions 3 million bushels, the quantity available for export and for carry-over on July 1, 1941 would be about 281 million bushels. The total domestic supply in 1939-40 was 1,003 million bushels, consisting of a carry-over of 248 million bushels (excluding insurance reserves of 6 million bushels) and a crop of 755 million bushels.

Growing conditions for the 1940 world wheat crop continue below normal in many important producing areas, and the crop will require favorable conditions for the remainder of the season to make average yields per acre. With no increase in acreage probable, it seems reasonable, accordingly, to continue to expect that the 1940 world crop will be smaller than that of 1939, when yields were above average. This would result in a reduction in the large world carry-over by July 1941.

FEED GRAINS

The cash price of corn advanced about 8 cents per bushel following the German occupation of Norway. Corn futures advanced 2 cents per bushel

following the invasion of Holland and Belgium, but then declined about 7 cents per bushel on May 13 and 14. This sharp decline would indicate that the cash price of No. 3 Yellow corn at Chicago is now down near the early April level of about 60 cents per bushel. A similar drop in prices at local markets would bring prices down below 50 cents per bushel throughout much of the Corn Belt, or well below the loan rate. Some corn has been unsealed in recent weeks as cash prices, especially of some types of corn in local Corn Belt areas have advanced above the loan rate. The recent decline in prices may tend to discourage an additional unsealing of corn.

Weather conditions during April were quite favorable for hay and pastures, and improvement of these crops was marked during the month. The condition of the hay crop on May 1 was reported to be 80 percent of normal compared with 81 percent last year and 78 percent for the 1929-38 average. Stocks of hay on May 1 were estimated to be 10.9 million tons compared with 16.4 million tons last year and 9.0 million tons for the 1929-38 average. Pasture conditions on May 1 were about the same as the average for 1929-38 but slightly below conditions last year.

April 1 stocks of corn throughout the entire Corn Belt area east of the Missouri River were much larger than 1928-32 average stocks. Even after deducting corn sealed on farms, the stocks remaining were much above this average in most of this area and generally ample for the livestock to be fed.

The recent spread of the European War into Belgium and Holland cannot be expected to have any significant effect upon exports of domestic corn. Domestic exports declined to practically nil following the harvesting of the large Argentine crop with Argentine corn available at Liverpool at about 25 cents per bushel lower than United States corn. The export subsidy program for corn, announced by the Surplus Commodities Corporation on May 9, will increase exports substantially during the next few months, since about 25 million bushels have already been sold for export under this program, and an additional quantity is expected to be sold. All this corn will be sold from supplies held by the Commodity Credit Corporation.

OILSEEDS, FATS, AND OILS

Factory production of primary fats and oils in the first quarter of 1940, totaling about 2,247 million pounds, was 17 percent greater than in the corresponding period of 1939, with lard and greases accounting for the major part of the increase. Net imports of fats, oils, and oil-bearing materials in terms of crude oil totaled approximately 352 million pounds, 18 percent less than in the first quarter last year. Stocks of fats and oils increased during the quarter and on March 31 were 7 percent larger than a year earlier.

Little change occurred in prices of most fats and oils, and of domestic oilseeds during April. However, the German invasion of Denmark and Norway brought about a sharp rise in prices of medicinal cod-liver oil in domestic markets. More than half of the domestic requirements of cod and

cod-liver oils usually are obtained from Norway, Germany, the United Kingdom, and Denmark; which in view of present hostilities in the North Sea apparently will not be in a position to supply this market with such oils for some time to come. Lard prices in April recovered the ground lost in March, with the price of prime steam lard at Chicago averaging 6.1 cents per pound for the month.

Prices of domestic oilseeds and of most fats and oils were higher in April this year than last, reflecting a generally stronger demand situation. Prices of lard, greases, beef fats, and coconut oil, however, were somewhat lower than those of a year earlier, chiefly because of increased supplies of lard and greases in this country and of copra in the Philippines.

HOGS

Supplies of hogs for slaughter during the last 5 months (May-September) of the current hog marketing year probably will be around 20 percent larger than a year earlier. This is a little less than the percentage increase in the first 7 months (October-April) of the year. The effects of the larger marketings upon hog prices, however, will be partly offset by the stronger domestic consumer demand for meats this summer than last. An increase in marketings from April levels is expected during May and June, but this will be followed by some decrease in the late summer.

Although the 1940 spring pig crop is expected to be somewhat smaller than that of 1939, this decrease may not be reflected in smaller hog marketings until next winter and spring. If the hog-corn price ratio continues unfavorable for hog feeding, a relatively large proportion of the spring pigs may be marketed in the late summer and fall of this year. Hence, it may be that hog marketings will continue larger than a year earlier during nearly all of 1940.

Prices of hogs rose sharply following the German invasion of Scandinavian countries on April 9. The average price of butcher hogs at Chicago for the week ended April 6 was \$4.90; for the week ended April 13 it was \$5.15; and for the week ended April 27 it was \$6.20. The rise in prices during the second week of April was accompanied by some increase in hog marketings. As there has been no improvement in consumer demand in the past 2 months, the rise in hog prices in the second week of April may have been brought about chiefly by speculative influences. In the last half of April, however, marketings were reduced substantially, and this probably accounts for the advance in prices after the second week of the month. In early May, hog marketings increased and prices declined moderately.

For the entire month of April, inspected hog slaughter totaled 3,610,000 head, about 9 percent smaller than that of March, but 23 percent greater than that of April last year. The advance in hog prices in April was accompanied by a substantial rise in corn prices; the ratio of hog prices to corn prices, therefore, did not change much and continued considerably below average.

Exports of pork and lard decreased sharply in March, largely as a result of reduced shipments to Canada and Great Britain. Little, if any, increase in exports of hog products is expected to result in the near future from recent developments in the European war.

CATTLE

Total slaughter supplies of cattle in 1940 are not expected to be greatly different from those of 1939, but total marketings of fed cattle in the remainder of 1940 will be larger than a year earlier, and marketings of other cattle (mostly breeding stock) will be smaller. The proportion of well-finished, long-fed cattle in total marketings has been fairly small during the past 3 months but will increase seasonally during the early summer.

Prices of all grades of slaughter cattle advanced during April in spite of an increase in the weekly rate of marketings. Prices weakened slightly in early May, however. The April advance was most pronounced for prices of the lower grades of slaughter steers, which had remained fairly steady since about last October. The average price of good grade slaughter steers at Chicago for the week ended May 11 was about \$10.00, compared with \$9.50 for the first week of April and \$10.10 in the corresponding week of 1939. Until early May this year, prices of slaughter cattle had been considerably lower than a year earlier. Prices last year tended rather sharply downward during the spring and early summer. Prices of feeder steers have risen fairly sharply since late winter and are now a little higher than they were a year earlier.

The number of cattle slaughtered under Federal inspection during April totaled 774,000 head, about 7 percent more than in March and 14 percent more than in April last year. Slaughter supplies of cattle in the first 4 months of 1940 have totaled about 5 percent larger than in the corresponding period of 1939. Inspected calf slaughter in April also was larger than a month earlier and a year earlier, but the total for the first 4 months of 1940 was slightly smaller than in the first 4 months of 1939. Shipments of stocker and feeder cattle in the past 3 months have been smaller than a year earlier.

LAMBS

Total marketings of sheep and lambs in May and June are expected to be larger than a year earlier, with increases in both early lambs and grass fat yearlings. Weather and feed conditions in April were exceptionally favorable over nearly all of the early lambing areas of the Far Western States. Shipments of California lambs in May will be materially larger than those of last year and will include fewer feeder lambs. Marketings of early lambs from the Northwestern States (Idaho, Oregon, Washington) may be earlier than usual.

In the early lambing areas of the Southeastern States and the Corn Belt, the spring continued late, but recent rains indicated good pastures in May and June. The condition of lambs in these two areas on May 1 was below

average, and the proportion of early lambs marketed before July 1 will be smaller than usual.

Prices of spring lambs have fluctuated considerably so far this season but have averaged little different from a year earlier. The average price of good and choice spring lambs at Kansas City for the week ended May 11 was \$10.60, slightly higher than a month earlier but about the same as a year earlier. Prices of fed lambs strengthened during the first half of April, but part of the advance was lost during the last half of the month and in early May. The average price of good and choice woolled lambs (old crop) at Chicago for the week ended May 11 was \$10.35, compared with \$10.10 in the first week of April and \$10.45 in the corresponding week of 1939. In most weeks since early January prices of fed lambs have averaged higher than a year earlier. Total slaughter supplies of sheep and lambs in the first 4 months of 1940 have been about the same as a year earlier, but prices have been supported by a somewhat stronger consumer demand for meats and higher wool prices than in the first 4 months of 1939.

Slaughter supplies of sheep and lambs increased about 7 percent during April. Inspected slaughter for the month totaled 1,355,000 head, about 10 percent more than in April last year. The increase over a year earlier appears to have been due to larger marketings of fed lambs, as marketings of spring lambs during April were reported to have been relatively small in comparison with last year, when shipments were stimulated by unfavorable range and pasture conditions. Shipments of fed lambs from the western feeding areas were about completed in April; new-crop lambs will constitute the bulk of the slaughter supply for the next several months.

WOOL

Domestic prices of most wools declined moderately in early April but later in the month advances were reported on a few lines, chiefly short wools and 3/8 and 1/4 blood fleece wools. Sales at Boston continued relatively small. Country packed 3/8 and 1/4 blood bright fleece wools of the new clip were sold early in May at 35-36 cents a pound, grease basis, delivered to mills, compared with 34-35 cents a month earlier. Similar wools sold in May 1939 at 27-28 cents a pound.

Factors affecting domestic wool prices favorably in the next few months will be the relatively small wool supply in this country and the strong foreign demand arising from war conditions. The prospect for a lower level of domestic mill consumption this year than last, however, will be a weakening influence upon domestic prices.

Stocks of apparel wool held by United States dealers and manufacturers including wool afloat, totaled 169 million pounds, grease basis, on March 30. An additional 11 million pounds of domestic shorn wool was estimated to be on ranches and farms and in local warehouses in the 13 Western sheep States on March 30. Total stocks on a grease basis reported at the end of March were

7 million pounds smaller than a year earlier, and were the smallest in 6 years of record.

United States imports of apparel wool for consumption totaled 66 million pounds in the first quarter of this year. The January-March imports this year were much larger than imports for the same period of any recent year except 1937, when 76 million pounds were imported. Although stocks in the United States on April 1 were small, such stocks plus the new domestic clip now being marketed probably will be in excess of mill requirements for the next several months. Consequently imports are expected to decline substantially in the late spring and summer.

Mill consumption of apparel wool in March was 17 percent lower than in February and was 35 percent below the peak of October 1939. But March consumption was slightly larger than average March consumption for the 10 years 1929-38. Consumption of apparel wool in the first 3 months of this year was 3 percent smaller than in the same months last year.

Wool prices in foreign markets did not change materially in April. The bulk of supplies of combing wools of the 1939-40 clip in South Africa and South America have been sold, and it appears likely that the carry-over of good quality wools into the 1940-41 season in those countries will be small.

BUTTER

In April there was a small seasonal decline in butter prices and in early May some recovery. Most of the seasonal decline in butter prices usually occurs before mid-May. The decline in business activity which has tended to depress butter prices since December, appears to be about over. The general level of prices and business is decidedly higher than a year ago. These factors, together with the prospect of a good storage demand are expected to maintain butter prices during the coming summer at a decidedly higher level than in the summer of 1939.

Up to April 1 the European war had little effect on stimulating the foreign demand for United States dairy products. The occupation of Denmark by Germany and the spread of war to the Low Countries has altered the outlook. Denmark and Holland were important countries in exports of dairy products. It is expected that our exports of dairy products will be stimulated, particularly for concentrated milks, to a less extent for cheese, and probably still less for butter. Our imports of cheese may be sharply curtailed.

Production of creamery butter in March was 2 percent less than in March 1939, but the second highest on record for the month. Weekly reports indicate that during April and early May, production was about the same as the relatively high production in the same period of 1939. The outlook is for relatively heavy production during the summer unless the weather should be unfavorable.

In March the apparent consumption of creamery butter was about 5 percent less than the record consumption in March 1939. This decline, however,

was due to the reduction in the distribution of butter for relief. Trade output through regular commercial channels was about 2 percent larger than a year earlier. Retail prices were decidedly higher. The changes in commercial consumption and retail prices indicate that consumer expenditures for butter in March were about 16 percent larger than in the same month of 1939. It is expected that consumer expenditures for butter during the coming summer will continue decidedly higher than in the summer of 1939.

The past season was a favorable one for storage operators and a good storage demand appears in prospect.

POULTRY AND EGGS

Total egg production during the first half of this year may equal or slightly exceed production in the corresponding months of 1939, even though production for the first quarter of 1940 was slightly less than a year earlier. Egg production in the last half of the year, however, is expected to be less than a year earlier because of the prospective smaller total hatch in 1940. Storage stocks of shell and frozen eggs thus far in the into-storage season have not accumulated to the extent that they did last year. Hence, with the expected increase in consumer buying power during the remainder of the year, egg prices may tend to increase as compared with prices a year earlier. Any slight increase in the export demand for eggs, resulting from the war in Europe, is not expected to have a significant effect on domestic egg prices. Egg marketings have reached the probable seasonal peak for the year and Federal Surplus Commodities Corporation purchases have continued relatively large.

The price of chickens is expected to continue to rise relative to prices a year earlier despite the larger supplies of poultry now on farms. The 1940 hatch is smaller than the 1939 hatch and stocks of storage poultry (excluding turkeys) are smaller than a year earlier. Consumer's income is expected to continue higher than a year earlier.

The out-of-storage movement of turkeys during April was the largest on record for that month, but stocks on May 1 continued the largest on record for that date. Marketings of poultry (fresh and frozen) have about reached the seasonal low for the year.

Prices of feed probably will remain relatively high and the feed-egg ratio will continue unfavorable for producers during the next few months. Poultry feed costs in the last half of the year will be affected to a considerable extent by the size of the 1940 feed crops.

POTATOES

Market prices of potatoes declined in recent weeks as a result of increased marketings of the new crop. Prices of new potatoes broke sharply during the latter part of April and in early May as shipments from California and Florida increased sharply. The harvest in Alabama and Louisiana, however, is indicated to be later than that of last season.

Commercial production of potatoes in the second section of early States is indicated to total 20.2 million bushels this season, or about 1 million bushels more than was produced in this area in 1939. Most of the increase occurs in California, where a record large crop is indicated. The harvest has been in progress for some time in California but it is just getting started in the other States. It is probable, therefore, that market supplies during most of May will be slightly larger than they were last year. Because of reduced plantings in the second early and intermediate States this season, however, market supplies in June and early July may be somewhat lighter than a year earlier.

The sharp decline in carlot shipments of old stock potatoes in recent weeks indicates that the marketing season is nearing completion. Only Idaho, Maine, Michigan, Minnesota and North Dakota are shipping in considerable volume. It is probable that the supply of old stock remaining for shipment is slightly smaller than that of a year earlier.

TRUCK CROPS

Although the weather has continued too cool and wet for satisfactory growth of many tender vegetables, somewhat better progress has been made in recent weeks. The source of market supplies is gradually expanding and shifting northward. Supplies of asparagus, beets, carrots, spinach, and watermelons are now indicated to be slightly larger than in 1939, but supplies of most other truck crops are smaller. Supplies of lima beans, snap beans, cantaloups, eggplant, lettuce, onions, peppers, and tomatoes are particularly small as compared with a year earlier. It probably will be the latter part of June or early July before truck crop supplies attain normal levels.

Largely as a result of the continued scarcity of supplies, truck crop prices in early May averaged somewhat higher than a year earlier. A higher level of consumer purchasing power also has been a contributing factor. In general, the seasonal trend of prices is downward during this period of the year, and market prices of a number of vegetables have declined in recent weeks. Prices of lima beans, carrots, cauliflower, celery, lettuce, onions, and tomatoes, however, have advanced. These changes have reflected largely contra-seasonal shifts in market supplies.

FRUITS

Although it is too early to obtain an accurate appraisal of the prospect for fruit production in 1940, the probabilities are that supplies of most fruits this season will be smaller than the relatively large supplies available last year. With few exceptions production probably will be about average. Moreover, domestic consumer demand for fruits is likely to be somewhat improved over that of the 1939-40 season. These two favorable factors probably will offset to a large extent the unfavorable influence of possible losses in the export market.

As compared with 1939, increased production of California summer oranges, lemons, and dried prunes is expected to be more than offset by de-

creased output of other fruit crops. Early reports indicate that peach production in 1940, particularly in the Southern and North Central States, probably will be substantially smaller than in 1939. The crop in California, a large portion of which is usually used for canning and drying, is likely to be 10 to 15 percent smaller than last year's relatively large production. California production of apples, pears, grapes, apricots, plums, and cherries is also likely to be reduced somewhat this season as compared with 1939. For the country as a whole, the indications are that the supply of most of these fruits in 1940 probably will be about average.

Because of the reduced market supplies of Florida oranges and Florida and Texas grapefruit, occasioned by the late January freeze, prices of most citrus crops have risen sharply in recent weeks. Prices of both Florida and California oranges have advanced about 75 cents per box. The marketing season for these fruits will be completed soon, leaving only California and Arizona late varieties to be harvested.

The end of the marketing season for cold storage apples is also approaching, and market prices have advanced seasonally in recent weeks. Cold storage holdings on May 1 totaled 3.6 million bushels compared with 4.7 million bushels a year earlier and 4.6 million bushels, the recent 5-year average for May. 1.

Economic trends affecting agriculture - Continued

- 1/ Federal Reserve Board, adjusted for seasonal variation.
- 2/ Bureau of Labor Statistics, adjusted for seasonal variation (employment adjusted by Federal Reserve and payrolls by Bureau of Agricultural Economics).
- 3/ Adjusted for seasonal variations. Includes factory, railroad, and mining employees.
- 4/ Foreign Agricultural Relations, July 1909-June 1914 = 100, adjusted for seasonal variation.
- 5/ Bureau of Labor Statistics, 1926 = 100, converted to 1910-14 = 100.
- 6/ Bureau of Labor Statistics, 1923-25 = 100, converted to 1913 = 100.
- 7/ August 1909 - July 1914 = 100.
- 8/ Adjusted for seasonal variation. Revised March 1940.
- 9/ Preliminary.

Note: In comparing trends between industrial production and industrial workers' income, as indicated by the above index numbers, notice should be taken of the different base periods used, and of the fact that income of railway workers, as well as incomes of mining and factory workers, is included in the index of industrial workers' income, whereas the industrial production index is based on mining and manufacturing only. Similar precautions are necessary in comparing trends between industrial production and factory employment and payrolls. The base periods are the same, but the production index includes minerals as well as factory products. Another consideration of importance is that the production index is based on volume, whereas the income indexes are affected by changes in wage rates as well as by time worked. In comparing monthly indexes it is important to keep in mind the fact that there is usually a time lag between changes in volume of production and similar changes in employment and in workers' income.